

CHAPTER 8

REPORTING STANDARDS FOR PERFORMANCE AUDITS

INTRODUCTION

8.1 This chapter prescribes reporting standards and provides guidance to auditors reporting on performance audits in accordance with generally accepted government auditing standards (GAGAS). The reporting standards for performance audits relate to the form of the report, the report contents, report quality, and report issuance and distribution.

FORM

8.2 The first reporting standard for performance audits is:

Auditors should prepare audit reports communicating the results of each audit.

8.3 The form of the audit report should be appropriate for its intended use. Auditors should use their professional judgment including consideration of users' needs, likely demand, and distribution in determining the form of the audit report. In addition to a more formal presentation of audit results, such as a chapter report or a letter report, briefing slides may be considered audit reports. Audit reports also may be presented on electronic media that are retrievable by report users and the audit organization, such as video or compact disk formats. However, to comply with these standards, audit reports, regardless of form, should comply with all applicable reporting standards.

8.4 This standard is not intended to limit or prevent discussion of findings, judgments, conclusions, and recommendations with persons who have responsibilities involving the area being audited. On the contrary, such discussions are encouraged.

8.5 Audit reports (1) communicate the results of audits to officials at various levels of government, (2) make the results less susceptible to misunderstanding, (3) make the results available for public inspection, and (4) facilitate follow-up to determine whether appropriate corrective actions have been taken. The need to maintain public accountability for government program demands that audit reports be retrievable.

8.6 When an audit is terminated before it is completed, auditors should communicate that fact to management of the audited entity, the entity requesting the audit, and other appropriate officials, preferably in writing. In the absence of an audit report, auditors should also write a memorandum for the record that summarizes the results of the work to the date of termination and explains why the audit was terminated.

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8.7 The second reporting standard for performance audits is:

The audit report should include the objectives, scope, and methodology; the audit results, including findings, conclusions, and recommendations, as appropriate; a reference to compliance with generally accepted government auditing standards; the views of responsible officials; and, if applicable, the nature of any privileged and confidential information omitted.

Objectives, Scope, and Methodology

8.8 Auditors should include in the report the audit objectives and the scope and methodology used for achieving the audit objectives. This information is needed by report users to understand the purpose of the audit and the nature of the audit work performed, to provide perspective as to what is reported, and to understand any significant limitations in audit objectives, scope, or methodology. Auditors should also report the status of uncorrected significant findings and recommendations¹ from prior audits that affect the objectives of the current audit.

Objectives

8.9 Audit objectives should be communicated to knowledgeable users by reporting the questions that were to be answered in the audit in a clear, specific, and neutral manner that avoids unstated assumptions. In reporting the audit objectives, auditors should explain why the audit organization undertook the assignment and state what the report is to accomplish, and why the subject matter is important. Articulating what the report is to accomplish normally involves identifying the audit subject and the aspect of performance examined. The reported audit objectives provide more meaningful information to report users if they are measurable and feasible and avoid being presented in a broad or general manner. To reduce misunderstanding in cases where the objectives are particularly limited and broader objectives can be inferred, it may be necessary to state objectives that were not pursued.

Scope and Methodology

8.10 In reporting the scope of the audit, auditors should describe the depth and coverage of work conducted to accomplish the audit's objectives. Auditors should, as applicable, explain the relationship between the population of items sampled and what was audited; identify organizations, geographic locations, and the period covered; report the kinds and sources of evidence; and explain

¹Significant findings and recommendations are those matters, that if not corrected, could affect the results of the auditors' work and users' conclusions about those results.

any problems with the evidence. Auditors should also report significant constraints imposed on the audit approach by data limitations or scope impairments.

8.11 To report the methodology used, auditors should clearly explain how the audit objectives were accomplished including the evidence gathering and analysis techniques used in sufficient detail to allow knowledgeable users of their reports to understand the work. This explanation should identify any significant assumptions made in conducting the audit; describe any comparative techniques applied; describe the criteria used; and when sampling significantly supports auditors' findings, describe the sample design and state why it was chosen, including whether the results can be projected to the intended population.

8.12 Auditors should attempt to avoid misunderstanding by the report user concerning the work that was and was not done to achieve the audit objectives, particularly when the work was limited because of constraints on time or resources. The auditors' report should clearly describe the scope of the work performed and any limitations, the applicable standards that were not followed, and the reasons therefore, and how not following the applicable standards affected or could affect the results of the work. For example, if the auditors are unable to determine the reliability of information from an agency's database, and information from this database is critical to the audit findings, the report should clearly state the limitations associated with the information and refrain from making unwarranted conclusions or recommendations. In these situations, the audit report should also include the reasons the auditors were unable to perform this work and the potential impact on the findings if the information is not reliable.

Audit Results

8.13 Auditors should report significant findings by providing credible and convincing evidence that relates to the audit objectives. An audit report is improved when it provides sufficient contextual sophistication to reflect an understanding of the issues and an awareness of the external environment, including sensitivity to relevant trends. The report should provide selective background information

to provide the context for the overall message and to help the reader understand the significance of the issues discussed.² The report should also include all significant instances of fraud, illegal acts, or other noncompliance³ and all significant instances of abuse that were found during or in connection with the audit and any significant weaknesses in internal control found during the audit, and where applicable, auditors' conclusions.⁴

Findings

8.14 Auditors should report the significant findings developed in response to each audit objective. These findings should be supported by sufficient, competent, and relevant evidence. They also should be presented in a manner to promote adequate understanding of the matters reported and to provide convincing but fair presentations in proper perspective.

8.15 As discussed in chapter 7, findings often have been regarded as containing the elements of criteria, condition, cause, and effect. However, the elements needed for a finding depend on the audit objectives. Thus, a finding or set of findings is complete to the extent that the audit objectives are satisfied and the report clearly relates those objectives to the elements of the finding.

8.16 Auditors should develop the elements of a finding in the audit report, as appropriate to satisfy the audit objectives. In reporting on elements of findings, auditors may find it useful to consider the following guidance on each finding element.

²Appropriate background information may include information on how programs/operations work, the significance of programs/operations (i.e., dollars, impact, purposes, and past audit work if relevant), a description of the audited entity's responsibilities, and explanation of terms, organizational structure, and statutory basis for the program/operations.

³Whether a particular act is, in fact, illegal may have to await final determination by a court of law. Thus, when auditors disclose matters that have led them to conclude that an illegal act is likely to have occurred, they should take care not to imply that they have made a determination of illegality. See paragraph 8.17 for additional reporting considerations.

⁴Significant weaknesses in internal controls may be discussed in the report as an element of a finding. Many times these weaknesses will be described as the cause of the finding or in "a process finding" will be the condition element. Paragraphs 7.46 through 7.49 describe the elements of a finding.

a. **Criteria:** An audit report is improved when it provides information so that the report user will be able to determine what is the required or desired state or what is expected from the program or operation. The criteria are easier to understand when stated fairly, explicitly, and completely, and the source of the criteria are identified in the audit report.⁵

b. **Condition:** The audit report is improved when it provides evidence of what the auditors found regarding the actual situation. Reporting the scope or extent of the condition allows the report user to gain an accurate perspective.

c. **Cause:** The audit report is improved when it provides convincing evidence on the factor or factors responsible for the difference between condition and criteria. In reporting the cause, auditors may consider whether the evidence provides a reasonable and persuasive argument for why the stated cause is the key factor or factors contributing to the difference as opposed to other possible causes, such as poorly designed criteria or factors uncontrollable by program management. The auditors also may consider whether the identified cause serves as a basis for the recommendations.

d. **Effect:** The audit report is improved when it provides a clear, logical link to establish the impact of the difference between what the auditors found (condition) and what should be (criteria). Effect is easier to understand when it is stated clearly, concisely, and in concrete terms. The significance of the reported effect can be demonstrated through credible evidence.

8.17 When auditors conclude, based on evidence obtained, that significant fraud, illegal acts, or other noncompliance either has occurred or is likely to have occurred, they should include in their audit report the relevant information. The term "noncompliance" comprises illegal acts (violations of laws and regulations) and violations of provisions of contracts or grant agreements. When auditors conclude significant abuse has or is likely to have occurred, they should also include

⁵ Common sources for criteria are laws, regulations, policy, procedures, best or standard practice, or assertions. The *Standards for Internal Control in the Federal Government* (GAO/AIMD-00-21.3.1, November 1999) and *Internal Control—Integrated Framework*, published by the Committee of Sponsoring Organizations of the Treadway Commission (COSO Report) are two sources of established criteria auditors can use to support their judgments and conclusions about internal control.

relevant information in the report. Abuse occurs when the conduct of a government organization, program, activity, or function falls short of societal expectations for prudent behavior.

8.18 In reporting significant instances of noncompliance, auditors should place their findings in perspective. To give the report user a basis for judging the prevalence and consequences of noncompliance, the instances of noncompliance should be related to the population or the number of cases examined and quantified in terms of dollar value, if appropriate. If the results cannot be projected, the conclusion should be limited to the items tested.

8.19 In reporting on internal control, auditors should describe the scope of internal control testing, and in presenting the results of those tests, report the significant weaknesses.⁶ Auditors may identify significant weaknesses in internal control as the cause of deficient performance. In reporting this type of finding, the control weakness would be described as the “cause.”

8.20 When auditors detect nonsignificant instances of fraud, illegal acts, or other noncompliance or nonsignificant instances of abuse or weaknesses in internal control, they should communicate them to the officials of the audited program, preferably in writing. Auditors should include in their audit documentation all communications to officials of the audited program about fraud, illegal acts, or other noncompliance and instances of abuse or internal control weaknesses. If the auditors have communicated such instances of fraud, illegal acts, or other noncompliance, abuse, and internal control weaknesses in a management letter to top management, auditors should refer to that management letter in the audit report.

⁶Significant weaknesses are matters coming to the auditors’ attention that they believe should be reported to officials of the audited program because they could adversely affect the program under audit.

Direct Reporting of Fraud and Illegal Acts

8.21 Auditors are responsible for reporting certain fraud and illegal acts directly to parties outside the audited entity in certain circumstances, as discussed in the following paragraphs. Auditors should fulfill these responsibilities even if they have resigned or been dismissed from the audit.⁷

8.22 Officials of the audited entity may be required by law or regulation to report certain fraud and illegal acts to specified external parties such as a federal inspector general or a state attorney general. If auditors have communicated such fraud and illegal acts to officials of the audited entity, and the latter fail to report them, then the auditors should communicate their awareness of that failure to the audited entity's governing body. If officials of the audited entity do not make the required report as soon as practical after the auditors' communication with its governing body, then the auditors should report the fraud and illegal acts directly to the external party specified in the law or regulation.

8.23 Auditors should obtain sufficient, competent, and relevant evidence, such as confirmation with outside parties, to corroborate assertions by management that it has reported fraud or illegal acts. If they are unable to do so, then the auditors should report the fraud or illegal acts directly as discussed above.

8.24 Laws, regulations, or other authority may require auditors to report promptly indications of fraud or other illegal acts to law enforcement or investigatory authorities. In such circumstances, when auditors conclude that fraud or another illegal act either has or is likely to have occurred, they should refer it to law enforcement or investigatory authorities and ask those authorities or legal counsel if reporting certain information about the potential fraud or illegal act would compromise investigative or legal proceedings. Auditors should limit the extent of their reporting to matters that would not compromise those proceedings, such as information that is already a part of the public record.

⁷Internal audit organizations do not have a duty to report outside that entity unless required by law, rule, regulation, or policy.

Conclusions

8.25 Auditors should report conclusions when called for by the audit objectives. Conclusions are logical inferences about the program based on the auditors' findings and should flow from the findings, instead of representing a summary of them. Conclusions should be clearly stated, not implied. The strength of the auditors' conclusions depends on the persuasiveness of the evidence supporting the findings and the soundness of the logic used to formulate the conclusions. Conclusions are stronger if they set up the report's recommendations and convince the knowledgeable user of the report that action is necessary.

Recommendations

8.26 If warranted, auditors should make recommendations for actions to improve programs and operations and to correct problem areas identified during the audit. Auditors should make recommendations when the potential for improvement in programs, operations, and performance is substantiated by the reported findings and conclusions. Recommendations should logically flow from the evidence and need to state clearly the actions to be taken. Recommendations to effect compliance with laws and regulations and improve internal control also should be made when significant instances of fraud, illegal acts, or other noncompliance are noted or significant abuse or weaknesses in controls are found.

8.27 Constructive recommendations can encourage improvements in the conduct of government programs and operations. For recommendations to be most constructive, they should be directed at resolving the cause of identified problems, action oriented and specific, addressed to parties that have the authority to act, practical, and, to the extent feasible, cost effective and measurable.

Statement on Compliance With
Generally Accepted Government Auditing Standards

8.28 Auditors should report that the audit was made in accordance with generally accepted government auditing standards. The statement of compliance with GAGAS refers to all the applicable standards that the auditors should have followed during the audit. The statement should be qualified in situations in which the auditors did not follow an applicable standard. In these situations, auditors should report in the scope section the applicable standard that was not followed, the reasons therefore, and how not following the standard affected the results of the audit.

Views of Responsible Officials

8.29 Auditors should report the views of responsible officials of the audited program concerning auditors' findings, conclusions, and recommendations. One of the most effective ways to ensure that a report is fair, complete, and objective is to obtain advance review and comments by responsible officials of the audited entity and others, as may be appropriate. Including the views of responsible officials produces a report that shows not only what was found, and what the auditors think about it, but also what the officials in the audited entity think about the report and what they plan to do about it.

8.30 Auditors should normally request that the responsible officials' views on significant findings, conclusions, and recommendations be submitted in writing. Oral comments are acceptable as well, and, in some cases, may be the only or most expeditious way to obtain comments. Cases in which obtaining oral comments can be effective include when there is a time-critical need to meet a user's needs; the auditor has worked closely with the responsible officials throughout the conduct of the work and the parties are very familiar with the findings and issues addressed in the draft product; or the auditor does not expect major disagreements with the draft report's findings, conclusions, and recommendations, or perceive any major controversies with regard to the issues discussed in the draft report. Auditors should prepare a summary of the officials' oral comments and provide a copy

of the summary to management of the audited entity to verify that the comments are accurately stated.

8.31 Comments should be fairly and objectively evaluated and recognized, as appropriate, in the final report. Comments, such as a promise or plan for corrective action, should be noted but should not be accepted as justification for dropping a significant finding or a related recommendation.

8.32 When the audited entity's comments state that the report's findings, conclusions, or recommendations are inaccurate or misleading and those comments are not, in the auditors' opinion, valid, the auditors should state their reasons for disagreeing with the comments. The auditors' disagreement should be stated in a fair and objective manner. Conversely, the auditors should modify their report as necessary if they find the comments valid. Auditors may wish to attach the comment letter to the audit report to provide the reader with both points of view.

Privileged and Confidential Information

8.33 If certain information is prohibited from general disclosure, auditors should report the nature of the information omitted and the requirement that makes the omission necessary. Certain information may be prohibited from general disclosure by federal, state, or local laws or regulations. In such circumstances, auditors may issue a separate limited official use report containing such information and distribute the report only to persons authorized by law or regulation to receive it. Auditors should, when appropriate, consult with legal counsel regarding any requirements or other circumstances that may necessitate the omission of certain information. If auditors make the judgment that certain pertinent information should be excluded from a publicly available report, they should state the nature of the information omitted and the reasons that make the omission necessary.

8.34 Additional circumstances associated with public safety and security concerns could also justify the exclusion of certain information in the report. For example, detailed information related to computer security for a particular program may be excluded from publicly available reports because

of the potential damage that could be caused by the misuse of this information. In such circumstances, auditors may issue a limited official use report containing such information and distribute the report only to those parties responsible for acting on the auditors' recommendations. If auditors make the judgment that certain additional information should be excluded from a publicly available report, they should state the nature of the information omitted and the reasons that makes the omission necessary.

8.35 Auditors are expected to act with integrity in judging whether any information should be excluded from publicly available reports. These judgments need to be made in a consistent manner with consideration of the broader public interest in the program or activity under review. Auditors need to weigh the need to reveal all significant facts known to them which, if not revealed, could either distort the results or conceal improper or unlawful practice against any requirements or other circumstances that may necessitate the omission of certain information.

REPORT QUALITY

8.36 The third reporting standard for performance audits is:

The reports should be timely, fact-based, accurate, objective, convincing, clear, and as concise as the subject permits.

Timely

8.37 To be of maximum use, the audit report needs to provide relevant information in time to respond to management, legislative officials, and other users' legitimate needs. Likewise, the information provided in the report needs to be current. Therefore, auditors should plan for the appropriate issuance of the report and conduct the audit with these goals in mind.

8.38 During the audit, the auditors should consider interim reporting of significant matters to appropriate entity officials. Such communication, which may be oral or written, is not a substitute for a final report, but it does alert officials to matters needing immediate attention and permits them to correct them before the final report is completed.

Fact-Based

8.39 Being fact-based requires that the report contains all evidence needed to satisfy the audit objectives and promotes an adequate and correct understanding of the matters reported. It also means the report states information and findings completely, including all necessary facts and explanations. Giving report users an adequate and correct understanding means providing perspective on the extent and significance of reported findings, such as the frequency of occurrence relative to the number of cases or transactions tested, and the relationship of the findings to the entity's operations.

8.40 In most cases, a single example of a deficiency is not sufficient to support a broad conclusion or a related recommendation. All that it supports is that a deviation, an error, or a weakness existed. Sufficient detailed supporting data should be included to make convincing presentations.

Accurate

8.41 Accuracy requires that the evidence presented be true and that findings be correctly portrayed. The need for accuracy is based on the need to assure report users that what is reported is credible and reliable. One inaccuracy in a report can cast doubt on the validity of an entire report and can divert attention from the substance of the report. Also, use of inaccurate evidence can damage the credibility of the issuing audit organization and reduce the effectiveness of its reports.

8.42 The report should include only information, findings, and conclusions that are supported by competent and relevant evidence in the audit documentation. If data are significant to the audit

findings and conclusions, but are not audited, the auditors should clearly indicate in their report the data's limitations and not make unwarranted conclusions or recommendations based on those data.

8.43 Reported evidence should demonstrate the correctness and reasonableness of the matters reported. Correct portrayal means describing accurately the audit scope and methodology, and presenting findings and conclusions in a manner consistent with the scope of audit work. The report should not have errors in logic and reasoning. One way to help ensure accuracy in the report is to use a quality control process such as referencing. Referencing is a process in which statements of facts, figures, and dates are traced back to the supporting working papers by an experienced auditor who is independent of the audit. This process is designed to ensure that sufficient credible evidence is present to support the report's conclusions and recommendations.

Objective

8.44 Objectivity requires that the presentation of the entire report be balanced in content and tone. A report's credibility is significantly enhanced when it presents evidence in an unbiased manner so that report users can be persuaded by the facts. The report should be fair and not misleading, and should place the audit results in perspective. This means presenting the audit results impartially and fairly. In describing shortcomings in performance, auditors should put findings in context. For example, the audited entity may have faced unusual difficulties or circumstances.

8.45 The tone of reports should encourage decision makers to act on the auditors' findings and recommendations. This tone should be balanced by requiring reports to present sound and logical evidence to support conclusions, while refraining from using adjectives or adverbs that characterize evidence in a way that implies criticism or conclusion by innuendo.

8.46 The report should also recognize the positive aspects of the program reviewed if applicable to the audit objectives. Inclusion of positive program aspects may lead to improved performance by other government organizations that read the report.

Convincing

8.47 Being convincing requires that the audit results be responsive to the audit objectives, the findings be presented persuasively, and the conclusions and recommendations follow logically from the facts presented. The information presented should be sufficient to convince the report users to recognize the validity of the findings, the reasonableness of the conclusions, and the benefit of implementing the recommendations. Reports designed in this way can help focus the attention of responsible officials on the matters that warrant attention and can help stimulate correction.

Clear

8.48 Clarity requires that the report be easy to read and understand. Reports should be prepared in language as clear and simple as the subject permits. Use of straightforward, nontechnical language is essential to simplicity of presentation. Whenever technical terms, abbreviations, and acronyms are used, they should be clearly defined.

8.49 Auditors may consider using a summary within the report to capture the report user's attention and highlight the overall message. If a summary is used, it generally should focus on the specific answers to the questions in the audit objectives, summarize the audit's most significant findings and the report's principal conclusions, and prepare users to anticipate the major recommendations.

8.50 Logical organization of material, and accuracy and precision in stating facts and in drawing conclusions, are essential to clarity and understanding. Effective use of titles and captions and topic sentences makes the report easier to read and understand. Visual aids (such as pictures, charts, graphs, and maps) should be used when appropriate to clarify and summarize complex material.

Concise

8.51 Being concise requires that the report be no longer than necessary to convey and support the message. Extraneous detail detracts from a report, may even conceal the real message, and may confuse or distract the users. Also, needless repetition should be avoided. Although room exists for considerable judgment in determining the content of reports, those that are fact-based, but still concise, are likely to achieve greater results.

REPORT ISSUANCE AND DISTRIBUTION

8.52 The fourth reporting standard for performance audits is:

Audit organizations should submit audit reports to the appropriate officials of the audited program and to the appropriate officials of the organizations requiring or arranging for the audits, including external funding organizations, unless legal restrictions prevent it. Copies of the reports should also be sent to other officials who have legal oversight authority or who may be responsible for acting on audit findings and recommendations and to others authorized to receive such reports. Unless the report is restricted by law or regulation, copies should be made available for public inspection.

8.53 Audit reports should be distributed in a timely manner to officials interested in the results. Such officials include those designated by law or regulation to receive such reports, those responsible for acting on the findings and recommendations, those of other levels of government who have provided assistance to the audited entity, and legislators. However, if the subject of the audit involves material that is classified for security purposes or is not releasable to particular parties or the public for other valid reasons, auditors should limit the report distribution.

8.54 When nongovernment audit organizations are engaged, the engaging government organization should ensure that the report is distributed appropriately. If the nongovernment audit organization is to make the distribution, the engagement agreement should indicate which officials or organizations should receive the report.

8.55 Internal auditors should follow their entity's own arrangements and statutory requirements for distribution. Usually, they report to their entity's top managers, who are responsible for distribution of the report. Further distribution of reports outside the organization should be made in accordance with applicable law, rule, regulation, or policy.